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OpEd - The lessons of Venezuela and socialism

By Richard Eckstrom SC Comptroller Special to the Moultrie News Mar 6, 2019



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Venezuela lies some 2,000 miles from South Carolina, but the crisis gripping this once-wealthy nation offers lessons to heed here at home.

Venezuela's road to ruin began 20 years ago, with the election of Hugo Chavez as president. Chavez preached socialism and he practiced what he preached. In the early years of his presidency he tightened state control over the oil industry, redistributing its profits to fund new social programs such as government-controlled healthcare, free college and subsidized groceries and housing.

The 2000s brought rising global demand for oil and surging oil prices meant immense wealth for a country with huge petroleum reserves. As revenue soared so did Chavez's spending. He borrowed heavily to finance expansion of his social programs.

Touting the benefits of "21st century socialism," Chavez nationalized hundreds of companies, farms and factories. He imposed new regulations such as price controls on private businesses.

In times of abundance, Venezuela was cited by socialism proponents worldwide as a "socialist paradise" to emulate. But those glory days are over. Shortly after Chavez's death in 2013, oil prices – and Venezuela's revenue – plummeted.

Vanishing profits unmasked some harsh realities. Increased control over the oil industry had led to inefficiency, mismanagement and corruption – and plunging output. Chavez's policies had decimated the non-oil economy as well. Nearly every business which had been nationalized experienced falling production, a consequence of

eliminating profit as an incentive. Burdensome regulation and fears of nationalization chased away private investment. Over two decades, nearly 45 percent of its private businesses have shuttered or fled the country.

Its other industries in tatters, Venezuela went from being dependent on oil to being extremely dependent on oil – inviting catastrophe when oil prices crashed.

Chavez bequeathed a nation with steep debt and depleted reserves – and a citizenry dependent on costly government benefits. To keep the benefits flowing, the government found itself in a self-destructive spiral: ever-increasing debt, loan shark borrowing rates, and defaults.

With dwindling options to pay the bills, Chavez's successor, Nicolas Maduro, printed more money. But that traded one problem for another. Greatly increasing the supply of money causes it to lose value, triggering inflation. Also, Venezuela's currency-control system offered different exchange rates to different people, giving rise to a black market where U.S. dollars were bought low and resold high – increasing demand for dollars and feeding inflation.

Other Maduro actions – including new price controls, numerous minimum wage increases and corporate tax hikes – only hastened the country's freefall.

Today, Venezuela has the world's worst inflation. Even small purchases now require box-fulls of cash. Many shopkeepers don't even bother with price tags due to the rapidly-increasing prices.

That is, if there's anything on the shelves at all.

A crippled economy cripples production capacity, so goods must be shipped from abroad. But rocketing inflation, withering revenue and high debt-repayments forced the government to curtail imports. Thus, a nation sitting atop vast oil wealth faces a severe scarcity of essentials such as food and medicine.

The outcome of two decades of socialism is a devastating humanitarian crisis. People are starving. Children rummage through garbage for scraps of food. Hospitals lack vaccines and supplies such as catheters and rubbing alcohol. There are outbreaks of illnesses easily prevented through vaccination, including measles and diphtheria.

Ironically, it's just as its ruinous effects are becoming evident to the world that socialism appears to be gaining popularity here at home. Polls show support for socialism has grown in the past couple of years, especially among younger, left-leaning voters. One pro-socialism organization, the Democratic Socialists of America, says membership has spiked eight-fold since the 2016 election.

Defenders of this once-fringe ideology reject the idea that socialism alone caused Venezuela's meltdown. They blame other factors – oil prices, corruption, incompetence. But socialist policies are clearly the primary culprit, even if they're not the only culprit. Indisputably, subjugating private enterprise to the powers of the state sowed the seeds of Venezuela's descent.

Americans seduced by socialism's appeal should reflect on the lessons of Venezuela. Prosperity is best achieved not through the coercion of the state but through individual freedom. Society flourishes when people are empowered to make choices, to compete, and to enjoy the fruits of their labor.

In Venezuela, socialism worked the way it always does. Let's make sure it doesn't happen here.

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